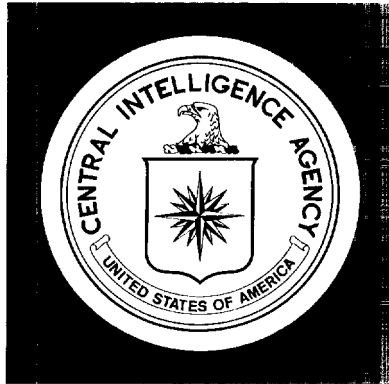


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# Weekly Summary

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# EGYPT

## Qadhafi in Cairo

1 President Qadhafi's stay in Egypt has done little, if anything, for the scheduled merger of Egypt and Libya; instead, it may merely have solidified positions on both sides. Having flown to Egypt because of a spat with his colleagues on the Revolutionary Command Council, Qadhafi has been treated by President Sadat to a grand tour of Egypt's political institutions. The tour is doubtless calculated to expose Qadhafi to dis-

senting Egyptian views on his person, his revolution, and his union.]

2 [The result has been an exchange of public criticism and barbed insults which have revealed, on the one hand, Egyptian reluctance to throw in wholeheartedly with Qadhafi in September and, on the other, Qadhafi's disdain for the Egyptian political system.] [If the Egyptians are not more reluctant than ever about entering a union with Qadhafi, they are at least more willing to express

Qadhafi and Sadat  
*A questioning look*



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their reluctance openly. Cairo's insistence on a gradual approach to union appears to have made Qadhafi more determined than ever that there must be full merger in September, if not before;

The natural result of all this wrangling is that no tangible progress has been made toward implementing the merger. Left unstated in the wide press coverage being given these exchanges has been the undoubted controversy over Qadhafi's role in the new state. Differences within Libya's ruling council over the role he and the other council members should play apparently helped prompt Qadhafi's abrupt departure from Libya two weeks ago and, although this split seems reparable, the larger Egyptian-Libyan disagreement may not be. Union has begun to appear an increasingly remote prospect and, although some form of merger may still be proclaimed on 1 September, cracks are likely to appear even before the plaster dries.

#### Soviet Treaty in Doubt

Qadhafi's visit and Egyptian unhappiness over the Nixon-Brezhnev summit have led to speculation in Cairo that the Egyptian-Soviet friendship treaty, concluded in May 1971, may be in jeopardy. Qadhafi hinted in a Cairo speech last week that the treaty should be abrogated if it does not prove more productive of Soviet assistance to Egypt. There have been indications that, under the merger, treaties affecting one party will be subject to review and possible veto by the other party.

Cairo, which would not bow to Qadhafi on such an issue, has its own reasons for dissatisfaction with the Soviets. Long unhappy with what it considers an inadequate level of Soviet assistance, Cairo has recently shown its concern that US-Soviet detente is pulling the USSR still further away from full political and military backing for the Egyptian cause. Cairo columnists have, since the conclusion of the Nixon-Brezhnev summit, noted that the new era of detente demands some Egyptian move against the USSR and specifically against the treaty.

Other journalists have counseled moderation, and the issue is surely under debate in Egyptian Government circles. A decision to renounce the treaty would not be taken easily; whatever gains might result in terms of popularity among the Egyptian people or with Libya would not offset the damage to Egypt if the Soviets reacted by reducing their aid. Cairo may calculate that Soviet interest in maintaining good relations with the Arab world would preclude any major cuts.

#### In Trouble Over the Palestinians

Cairo has other problems. It is attempting to smooth over a controversy in the Arab world roused by Foreign Minister Zayyat's "Palestinian initiative." At the opening session of the UN Middle East debate on 6 June, Zayyat urged that the "Palestinian nation" be given the same right to exist as was accorded Israel in 1947.

His statement has been universally derided and misunderstood. The fedayeen have roundly denounced the initiative as a subversion of their goal of liberating the entire territory of Palestine, including Israel. Jordan is disturbed by the implication it sees in Zayyat's remarks that its West Bank is the obvious site of a future independent Palestinian state.

Cairo is busy explaining what Zayyat meant. It is trying to persuade the Arabs that Egypt intended only to enunciate a policy of self-determination for the Palestinians that would allow them the right to exist within Palestine on the basis of any sort of arrangement which they could work out themselves. Cairo's attempts at reassurance probably will not have the desired effect.

The message that Egypt hopes to facilitate a settlement of its problem with Israel by divorcing itself from the resolution of the Palestinian problem has been lost on Israel. The Israelis have registered a firm "no" to Zayyat's statements.

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**SECRET****FRANCE: SHIFTING GEARS**  
(10-14)

7 Paris is reviewing its positions on a number of international issues, especially as they involve relations with and between the super powers. While there is no evidence at this point that a significant shift in French policy is impending, Paris in recent weeks has used a number of forums to express its concerns and make demands. These have included President Pompidou's summit meetings with President Nixon, and with Heath, Brandt, and Brezhnev. The French have also spoken out at preparatory talks for those meetings and in multilateral European gatherings.

8 Paris evidently fears that the US and USSR will, without consulting Europe, make bilateral arrangements that could be detrimental to French interests. The French consider that they already see evidence of such "super power collusion." The French are concerned that West Germany may be able to move into a more neutral position from which it could negotiate in relative independence with the two super powers. The success of Brandt's Ostpolitik—and the consequent diminution of France's self-appointed role as Western Europe's interlocutor with the Soviets—apparently stimulated this particular concern.

In a speech to the National Assembly on 19 June, Foreign Minister Jobert added to the speculation that France may be shifting from its past preference for the status quo toward support for the development of new European security arrangements.

Nevertheless, after the Brezhnev-Pompidou summit, official French spokesmen emphasized that US-Soviet agreements would not affect French plans to continue their independent defense options and that Pompidou had refused to reconsider his decision to stay out of the force reduction talks.

Some of the obscurity in French pronouncements is doubtless deliberate; part of it may come from a conflict between what the French want and what they are prepared to concede. Efforts to strengthen European unity and to promote closer European defense cooperation in the near term are likely to be limited by France's own reluctance to dilute its sovereignty. European nuclear defense cooperation over the longer term is even more complicated. There is the problem of German participation, and Paris' determination that only a French hand can unleash the French nuclear force. The implications of recent US-Soviet moves seem to have spurred the French to see what movement is possible within these boundaries and to ascertain to what extent their partners will cooperate.

The French approach to Western Europe's political and economic relations with the US is not so ambiguous. Paris clearly is trying to prod the EC into protecting European interests by taking a strong line in economic and financial talks with the US and by refusing to lend formal character to Europe's dialogue with the US. The French have been skeptical about the "year of Europe," and Jobert has said that US-EC multilateral consultations, and an Atlantic summit, must be preceded by genuine progress growing out of bilateral talks and talks in forums like NATO and GATT. The French take a narrow view of what would constitute progress in such talks.

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## INDOCHINA

## Getting It Straight

25X1 15 [Morale problems and "misunderstandings" over the North Vietnamese party line prompted Hanoi in April to dispatch a ranking Central Committee member to the South. The problems appear to have arisen because of Hanoi's unwillingness to support renewed major military operations in the South.

25X1 [ ] the official sent by Hanoi was the head of the Central Committee's Propaganda and Training Section, To Huu. He told assembled COSVN officials in Tay Ninh Province that because of the "international situation" and a "weakening of the war-making potential" on the Communist side, a large-scale military offensive could not be attempted for three to five years. Possibly to assuage concern that this policy amounted to abandonment of the revolution in the South, Huu claimed that North Vietnam would now concentrate on consolidating its economy, to serve as a "large rear base area for the South"—a well-worn Hanoi phrase.

He also made some overblown claims about North Vietnam's intent to provide generous economic support. Huu claimed that to match economic gains made by Saigon, Hanoi will concentrate "all of its economic resources" in support of the Communists in the South. The North even plans, with the help of the Japanese Communists, to set up Honda factories and textile plants in "liberated areas." He asserted that "three million" North Vietnamese will be resettled in "liberated areas" by mid-1974, especially in Binh Long and Tay Ninh provinces just north of Saigon.

Huu took the occasion to clarify an article by party First Secretary Le Duan early in the year, which criticized the ineffectiveness of some party officials. Le Duan, in the article, suggested that some of them would have to be weeded out—a suggestion that had no small effect on morale. Huu tried to mitigate the damage by claiming that Duan's lecture had been intended to

improve the skills, morale, and health of the officials.

[ ] Huu originally intended to visit only Quang Tri Province, but decided to go on to COSVN after arriving in South Vietnam. This suggests that he found more serious "misunderstandings" over Hanoi's policy on the war and on party matters than he anticipated. Given the apparent extent of Viet Cong concern, To Huu's verbal effort probably had only a limited palliative effect.

## Talks Still Deadlocked

18 [Both the Thieu government and the Viet Cong have issued new proposals toward a political settlement, but neither has altered its basic position very much.]

19 [The Thieu government has proposed the creation of four commissions to consider various aspects of the problem and has offered a new timetable for a settlement culminating in general elections next December. President Thieu reportedly has ordered Saigon's negotiators to continue to seek early elections and the withdrawal of North Vietnamese troops from the South. Thieu is still stressing the need to present a conciliatory image in order to place the blame on the Communists for blocking an agreement.]

19 [The Viet Cong are still emphasizing the need for "democratic freedoms" in South Vietnam and calling for an early agreement on military issues and the return of detained personnel. Like Saigon, the Communists appear to see little incentive at the moment for serious bargaining, and they too are likely to concentrate on cosmetic modifications that do not alter their basic demands.]

## Fighting More Localized

20 [Military activity increased slightly early in the week, but most of it was in the few areas still hotly contested by the two sides. The heaviest action came in the highlands west of Kontum]

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City, where the government is using heavier artillery and air support in an effort to dislodge North Vietnamese troops from two villages they captured last month.

21 Last week, General Toan, the commander of Military Region 2, threatened to attack Communist installations if the villages were not evacuated. Despite an admonition from President Thieu that such a move was politically unwise, South Vietnamese aircraft this week bombed several Viet Cong airfields in Kontum, including the large field at Dak To.

20 The other persistent trouble spot is the delta province of Chuong Thien. There, both sides seem determined to expand their areas of control. The fighting has been local, and conflicts of this sort could spread in the months ahead, particularly to areas where one side or the other believes it has been cheated by an eleventh hour land grab. The pattern could be broken, however, if, as now seems likely, Viet Cong truce supervision teams begin to arrive in the field.

22 The Communists have indicated that they are finally ready to proceed with their staffing of the Two-Party Joint Military Commission at the grass-roots level, perhaps within the next few days. The Communists' persistent refusal to put teams in the field has prevented the Joint Military Commission from becoming an effective body or dampening local flare-ups. The Communists claim they have been hampered by the Thieu government's reluctance, at least until recently, to assure either security or sustenance for the Viet Cong teams, most of which would be based in government-held towns and villages. It may be that the Viet Cong have been short on skilled, reliable men who could handle the complex political give and take required.

### Fighting Wears on in Cambodia

23 In the continuing game of roadway roulette, the Khmer Communists this week returned to the attack along Route 4, Phnom Penh's only link to the seaport of Kompong Som, and closed this highway some 20 miles west of the capital. Almost all of the available rice in Kompong Som had been trucked to Phnom Penh before the Communists moved onto the road.

24 North of the capital the insurgents switched their military efforts from Route 5, which was once again reopened at midweek, to Route 6. Communist units quickly managed to gain control of almost the entire 25-mile stretch between the ferry landing on the Tonle Sap River and the crossroads town of Skoun. A government counter-attack along Route 6 may be delayed until reinforcements can be released from security duty along Route 5 and from clearing operations closer to Phnom Penh.

### CHINA

#### Passing Up a Birthday 26

Holidays have become humdrum affairs since the death of heir apparent Lin Piao, but none has suffered so greatly as the party anniversary. The mass rallies and parades of old have generally given way to small affairs in the parks, but even this concession to gaiety has been omitted from the party anniversary for the past two years.

The leadership has shown that, despite its differences, it can produce some sort of innocuous statement if need be. There was no joint editorial when the party turned 52 on 1 July, leaving party officials throughout the country still waiting for guidance on a host of knotty problems. The rehabilitation of purged officials is antagonizing those already in place; the drive to promote young people into the leadership ranks is alienating the veterans; the political role of the military—thrust into power by the Cultural Revolution—is still a question mark; and the endless criticism of Lin Piao is causing confusion and apprehension.

The party is not yet completely rebuilt after the wreckage of the Cultural Revolution. Reconstruction continues at lower levels, but party leaders at the top have yet to untangle the various ramifications of the Lin Piao affair. A top item on the agenda is the need to erase the embarrassment of the Ninth Party Congress in April 1969. This congress elected Lin the party's sole vice-chairman and designated him Mao's successor. A new party constitution and the selection of new politburo and central committee members are also high on the list. Faced with these problems, the leadership has had little inclination to celebrate the party birthday.

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## YUGOSLAVIA

## Tito Ailing...

32 There are new protocol regulations in Belgrade that relieve Tito of many exhausting ceremonial responsibilities. Under the new system, Tito will receive only visiting chiefs of state, and they are asked to visit him at his "current place of residence." He will host luncheons, but from now



on his vice president will take his place at lengthy evening receptions. The vice president will meet and see off visiting dignitaries and accompany them on any travels inside Yugoslavia. Furthermore, there are suggestions that Tito may delegate more authority over the substantive aspects of state visits.

33 This reduction in Tito's activities was forecast two months ago in a speech by Stane Dolanc, his heir-apparent in the party. There had been signs that Tito was divesting himself of some presidential duties earlier in the year. He is 81 years old now and is leaving most of the routine party and state business to younger men.

## ...But Will Meet Ceausescu

(34400)  
Romanian President Ceausescu and Yugoslav President Tito will meet in Belgrade in mid-July for the seventh time since August 1968 when they stood together in opposition to the Soviet invasion of Czechoslovakia. This time, Tito and Ceausescu will wish to discuss their respective strategies for the European security talks.

The benefits of close cooperation between the two men were highlighted last week by the announcement that Romania is negotiating a credit for the development of port facilities at Bar, in southern Yugoslavia. The Yugoslavs have had problems financing the project—which includes a railway from Belgrade to Bar through inaccessible areas of Montenegro and Serbia to Belgrade. The Romanian credit would lighten the squeeze on Yugoslav investment resources and help open a port that would provide an Adriatic outlet for Romanian commerce.

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**SECRET****ROMANIA: SEEKING ARMS**

36 Spurred by haggling over prices and types of military equipment from the Soviet Union, Romania is stepping up its efforts to buy a variety of non-Soviet weapons. Bucharest has been moving along this road for some time and has sought arms from a variety of non-Soviet sources; most recently, it has considered buying arms from the Chinese and Austrians.

36 The Romanian chief of staff, Colonel General Ion Gheorghe, [ ] discussed arms procurement during his visit to China in late June. The fact that he met with a number of Chinese naval officials may indicate the type of equipment sought. Earlier in June, Gheorghe visited Austria, where he showed a keen interest in armored cars and tanks. Bucharest is additionally negotiating with several Western firms for joint production of helicopters. Ostensibly for civilian use, the craft could be used in military or military support roles.

37 Romania has undertaken a significant venture in arms production with Yugoslavia. The prototype of a jointly produced, lightly armed fighter-trainer is scheduled for test flights in early 1974. The plane uses a Rolls Royce engine, and bids are being taken from a number of British and French firms for component parts. Bucharest and Belgrade are slated to take 100 planes each, with an additional 100 a good prospect. [ ]

[ ]

[ ]

36 The Romanians are gambling that Soviet interest in European detente will enable them to slip out from under Moscow's thumb for a good portion of their arms needs. Bucharest is seeking some of these arms from neutral states in an obvious effort to soften a negative Soviet reaction. President Ceausescu further attempted to



Ceausescu

minimize Soviet suspicion in a speech on 30 May, when he assured Moscow that Romania intends to continue getting most of its arms from the USSR. [ ]

**BULGARIA: DIFFERENCES WITH MOSCOW**

42 The Bulgarians in two recent articles in an official journal indulged themselves in some mild, but most unusual, criticism of the Soviets. The articles registered Sofia's unhappiness with CEMA integration and the requirement on Bulgaria to contribute to the development of Soviet paper, steel, gas and other industries. The Bulgarians are annoyed over lack of coordination, complaining that extractive enterprises built in a "resource-rich country"—i.e., the Soviet Union—with foreign financial aid, should have "common production and realization of production goals." Mild as it is, this criticism is noteworthy since in Bulgarian eyes the Soviet Union can normally do no wrong. [ ]

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**SECRET****ICELAND: ANGLING FOR A SOLUTION**

Some NATO members are taking steps that could eventually lead to a temporary settlement in the Cod War between Iceland and the UK. Their actions probably stem from Iceland's demand to renegotiate the base treaty within six months. Until the fishing dispute is resolved, little progress can be expected in negotiations on retention of the base at Keflavik.

46 [The UK's refusal to withdraw its warships from inside the 50-mile limit is the immediate obstacle in the fishing dispute. London may be feeling a bit isolated from its NATO colleagues, some of whom have taken measures to resolve their own fishing differences with Iceland. Norway, for example, has concluded technical level negotiations for an interim fishing agreement. If the Icelandic cabinet can overcome the objections of the Communist minister, Norway will become the second NATO country, after Belgium, to have such an agreement.]

45 [West Germany, which has been allied with the UK in continuing to fish in the disputed area, resumed fishing negotiations on 29 June. No agreement was reached, but the Icelandic negotiators reportedly discussed allowing the Germans to fish to within approximately 30 miles of shore—an unexpected concession that may encourage the Germans to break ranks with the British. The atmosphere was further warmed when it was announced that Chancellor Brandt plans to visit Iceland next month, a move welcomed by the Icelandic foreign minister.]

46 [The Norwegian agreement may enable Oslo to play a role in mediation efforts, despite a previous rejection of Norwegian good offices by both London and Reykjavik. If the Germans conclude an agreement, the British might be persuaded to withdraw their ships, a gesture that almost certainly would result in resumption of negotiations and possibly a temporary settlement. All of this would take most of the summer to accomplish if it is ever accomplished. The base

negotiations promise to be difficult at best unless supporters of the base can show that NATO membership was instrumental in an eventual resolution of the fishing dispute and that the US-manned base does benefit Iceland. [redacted]

25X1  
25X1**THE NETHERLANDS: A CHIEF RESIGNS**

47 [The chairman of the Joint Chiefs of Staff, Army General Willem van Rijn, last week resigned in protest against the defense policies and programs of the new left-center government. Van Rijn, who will apparently step down on 1 October, said he no longer wants to be associated with policies that would weaken the national defense capability.]

48 [The resignation is dramatic evidence of the opposition in the Defense Ministry and the upper echelons of the armed forces to the defense plans of the Labor Party and its leftist allies. Defense Minister Vredeling is playing down the affair, but he is well aware that the Labor Party's proposals to eliminate the Dutch air force and delay force modernizations are causing consternation among career government officials, civilian as well as military. The divergence of opinion between Vredeling and the civil servants under him may well widen if the pace of East-West negotiations quickens.]

49 [More important, the stability of the fragile government is likely to be affected by the resignation. Several Catholic and Protestant politicians in the coalition share van Rijn's concern and may be unwilling to tolerate the leadership of a prime minister who wants to lower defense spending. The matter could come to a head during debates on the defense budget this fall. The Catholic People's Party helped defeat two pieces of minor legislation just before parliament adjourned for the summer, apparently to increase the party's leverage in the coming test of wills. [redacted]

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## Aircraft Production FRANCE IN FRONT

The US aside, non-Communist countries produced 2,840 military and civil aircraft in 1972, down slightly from 1971. About 1,300 were military aircraft; by comparison, the US alone produced about 2,100 aircraft for military purposes in 1972. France produced 1,145 aircraft and was the largest non-Communist producer, except, of course, for the US. France led in all categories except trainers and transports.

Fighter aircraft production reached 435, of which 180 were produced by France. The French total was more than three times as large as any of the other seven producing countries. France, the UK, and Sweden are the only countries producing domestically designed fighter airframes, and only France and the UK design their own fighter engines. Fighters produced by France in 1972 included the Mirage III, Mirage 5, Mirage F1, and Jaguar. The UK produced the Harrier, an aircraft that can take off and land vertically, and the Jaguar. Sweden built the Draken and the Viggen. Production of the Draken, however, has virtually ended, and the Viggen probably will be produced only in limited numbers.

Helicopter production for 1972 stood at 685, more than 300 of which were produced by France. The remainder was divided among six other producing countries. France, which produces a wide variety of helicopters, has become the prime competitor to the US in both

export sales and sale of licensed-production rights for helicopters.

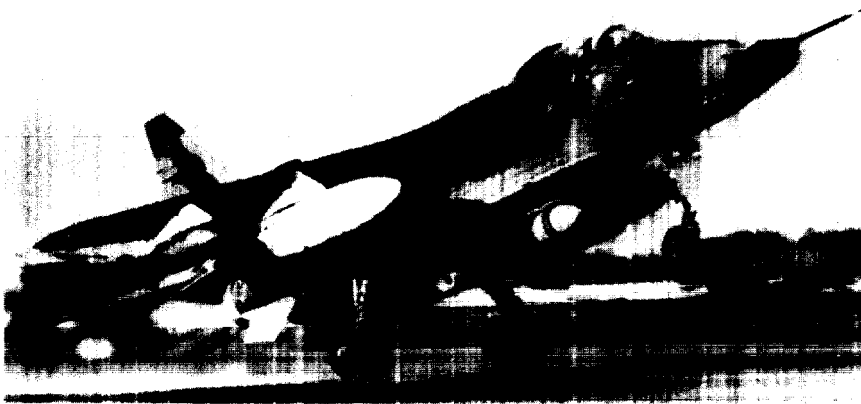
The other types of aircraft produced in 1972 included transports, anti-submarine warfare aircraft, trainers, and general utility aircraft. General utility aircraft were the largest single category, and production reached 1,220 planes, almost half of which were produced by France. Only 265 transports were produced in 1972—about 35 percent by the UK, 20 percent by France, and 15 percent by the Netherlands.

The position of France among aircraft producers is due not only to its high output, but to its continued involvement in advanced design projects. Orders for French military aircraft fell sharply during 1972; this reduced level may continue until sales of new models increase. The French have been trying to reorient their aircraft industry from its heavy dependence on military production—about 60 percent. A number of civilian projects are under way, and prototype aircraft are undergoing flight tests.

Italy was a distant second to France. The British position in third place is being threatened by West Germany. Over the longer term, the outlook for the British aircraft industry is bleak, but Italy probably can maintain production levels because of its involvement in multinational programs and the production of US military aircraft under license.

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Jaguar jet fighter



**SECRET****SOUTH ASIA: AGREEMENT TO TALK**

57 India and Pakistan have agreed to hold high-level political talks, but so far have not agreed on either the time or the place. No such discussions have occurred for almost a year, although military leaders of the two countries met last December to negotiate a new cease-fire line in Kashmir.

55 Islamabad proposed talks as far back as April, following an offer by India and Bangladesh for a package deal, which involved the release of Pakistani prisoners of war not slated to be tried for war crimes and an exchange of Bengalees in Pakistan for Biharis in Bangladesh. The Indians were uncertain that the Pakistanis were willing to discuss all elements of the Indo-Bangladesh proposal, however, and demanded Pakistani acceptance of the package "in principle" as a precondition for talks. A standoff resulted, and difficulties increased in May

being set free by India without progress on other issues.

- Dacca insists that 195 Pakistanis be tried for war crimes; Islamabad denies that Dacca has the right to hold such trials and threatens to try detained Bengalees for treason in retaliation.

- Dacca insists that Pakistan take a quarter million Biharis; Islamabad, which does not want these non-Bengalee Muslims, says that Bangladesh has no right to expel them. Nevertheless, the Pakistanis privately accept responsibility for some—perhaps 10-20,000—and an agreed number probably could eventually be negotiated.

- Dacca insists that about 150,000 Bengalees in Pakistan must be allowed to return to Bangladesh; Islamabad won't let them go until the prisoner-of-war issue is resolved.

- Dacca demands recognition as a precondition for bilateral talks with Islamabad, but did not make recognition part of the April proposal; President Bhutto has said many times that Islamabad should grant recognition, but he has been unwilling to take the step without some concessions by Dacca.

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55 Last month, the Indians dropped their demand for prior acceptance of the Indo-Bangladesh package. The Pakistanis replied that they were willing to discuss all elements of the proposal anyway and suggested talks begin in Pakistan on 9 July. The Indians have now suggested 16 July in New Delhi. They are aware that President Bhutto and his top foreign policy advisers will be in Washington at that time and may be seeking to postpone talks until late July or early August.

57 The delay would give New Delhi more time to try to modify Dacca's position on the issues. If the discussions are held in India it will be easier for New Delhi to consult with the Bengalees, who will not be represented in the talks. Most Indo-Pakistani issues have been shelved, and the meetings are likely to focus on these issues between Dacca and Islamabad.

57 • Islamabad insists that the 90,000 Pakistani prisoners of war in India be repatriated immediately; Dacca refuses to agree to their

57 For the proposed new talks to make significant progress, either Pakistan will have to soften its position, or New Delhi will have to put more pressure on Dacca. As of now there is no evidence that Bhutto has modified his apparent belief that any concessions could cause him political problems at home. Nor is there any sign that New Delhi has become more willing or able to change Bengalee minds.

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## NIGERIA-UK: FRIENDS AGAIN

General Gowon's trip to the UK last month is the latest manifestation of the improved atmosphere between the two countries. Both Lagos and London regard the state visit—Gowon's first outside Africa since he came to power in 1966—as a great success.

The good relations that existed through the first six years of Nigeria's independence began to break down during the civil war beginning in 1967. The UK hesitated to support Lagos against the secessionist Biafrans as firmly as Gowon and his military government wished. The Nigerians were particularly displeased with London's refusal to supply the sort of military equipment they wanted. Strains continued after the war when Gowon adopted a strong African nationalist line on southern Africa and began to push hard for indigenous control of Nigeria's British-dominated economy.

Relations began to improve last year after the UK rejected a proposed settlement with its breakaway colony of Rhodesia. Lagos had viewed the proposal as a sellout of the black Rhodesian majority. On the eve of Gowon's visit to London, Nigeria signed a more favorable participation agreement with Shell-BP, Nigeria's largest producer, than the British had expected. Lagos also removed the ban on British journalists that had been imposed after reports critical of Nigeria had appeared in the British press.

Gowon chose not to play up his new role as chairman of the OAU. His election to this post in May symbolized Nigeria's importance on the continent and Gowon's emergence as an influential African. Gowon confirmed that Nigeria's negative stand on African association with the EC has softened slightly. Lagos still opposes association for Nigeria, but will take part in talks between the Africans and EC representatives later this month. Prior to this meeting, Lagos will host an OAU



Queen Elizabeth and General Gowon

ministerial conference of present and prospective African EC associates in order to seek a common position toward the EC.

Gowon clearly desires to maintain close relations with the UK, still Nigeria's most important supporter in the fields of defense, foreign trade, private investment, and technical assistance. Areas of disagreement will nevertheless persist as Gowon pursues an assertive African nationalist policy.

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**SECRET****RHODESIA: NO DEAL**

78 Several senior officials from the foreign office in London paid a quiet visit to Salisbury last week, raising hopes for a settlement of the dispute between the two capitals. Subsequent statements from both sides quickly scotched these hopes. After the officials returned, Foreign Secretary Douglas-Home told Parliament that they had found no basis for a compromise between the Smith government and the black African National Council.

79 Smith's response in the Rhodesian Parliament to Home's statement expressed indignation at British insistence that any constitutional settlement must be approved by the council. According to Smith, the council's demands include immediate parity of black and white representatives in the Rhodesian Parliament, integration of schools, and amnesty for black nationalists who have committed terrorist acts. Although the contacts that took place between the British envoys and council leaders during the visit have not been publicized, Smith implied that such unacceptable demands amount to British encouragement of the blacks.

According to Baghdad radio, which has labeled the episode an abortive coup attempt, the two generals, both close supporters of President al-Bakr, were lured into a trap by the director of internal security, Nazim Kazzar. At some point the plot apparently went awry, and Kazzar had to flee toward the Iranian border. He took the two generals along presumably as hostages. When the escape route was blocked by troops, Kazzar and his accomplices killed Shihab and two other officers and wounded Ghaydan. The killers were captured and returned to Baghdad where they face execution.

A three-man commission, headed by a member of the Revolutionary Command Council, has been appointed to investigate the affair. [redacted] scores of arrests have been made in the wake of the incident, and if events follow the usual course for Iraq, a widespread purge is likely to ensue.

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President Bakr, who returned to Baghdad from an official visit to Bulgaria and Poland about the time of the incident, has not appeared in public since his reception at the airport. All official statements on the affair have been issued in the names of the Baath Party and the council. Saddam Husayn Tikriti, Bakr's chief rival, led the funeral cortege for the slain defense minister.

**IRAQ: ALL IN THE FAMILY**

Violence has been a common feature of Iraqi politics ever since the military killed several members of the royal family when seizing power in 1958. The assassination last weekend of General Hammad Shihab, the defense minister, and the wounding of General Saadoun Ghaydan, the interior minister, were the latest examples. The immediate cause this time was the long-standing power struggle between factions of the ruling socialist Baath Party. There is no evidence of external involvement.

Information from Baghdad is as always sparse, but it looks as if civilian Baathists tried to wrench control from the military element of the party. Kazzar, reportedly a supporter of Saddam Husayn Tikriti, appears in this case to have been little more than a tool for a power grab by Tikriti and the civilians. There have indeed been long-standing differences between Bakr and Tikriti, but until now they have been fairly well contained in the interest of party unity. [redacted]

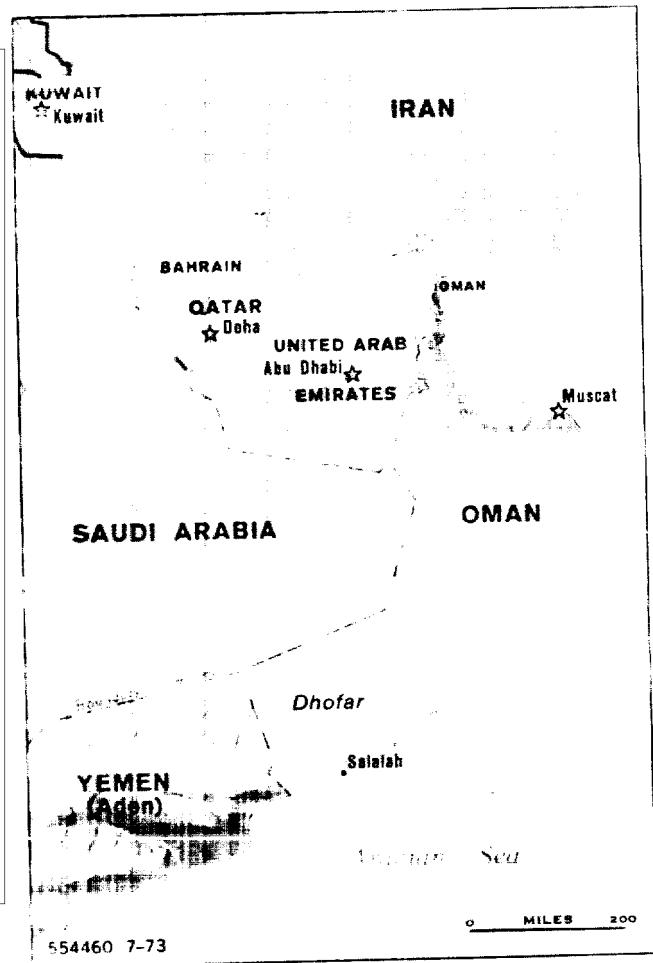
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## OMAN: WINDS OF CHANGE

Two recent developments could lead to a change in the situation in Oman, where Dhofari dissidents supported by Yemen (Aden) have been waging a guerrilla war against Sultan Qabus. The Sultan has attempted to open a dialogue with his leftist enemies; at the same time the Chinese are ending their assistance to the Popular Front for the Liberation of Oman and the Arab Gulf. These developments, singly or together, are not likely to produce a quick settlement of the decade-long insurgency, but they could lead to a break in the impasse.

conclude that Peking is reducing or discontinuing the assistance which it formerly provided the popular front. Some British officials agree. They believe that Chinese advisers are no longer training the rebels and that little Chinese materiel is reaching the Dhofari front. Lack of Chinese aid will not make much difference to the Dhofari rebels, however, so long as the Soviet Union continues its liberal assistance to Aden and some of this aid finds its way to the Dhofaris.

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Meanwhile, remarks by the Chinese foreign minister when he was in Tehran last month have prompted Iranian Foreign Ministry officials to

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## THE YEMENS: TRIALS AND TALKS

(one sentence)  
 [The Sana government is pressing ahead with the large-scale roundup and prosecution of Adeni-sponsored saboteurs and terrorists. This week five persons charged with the assassination on 30 May of Muhammad Ali Uthman, member of the ruling three-man Republican Council, were put on trial in Sana. Since the discovery last April of an extensive sabotage net, Sana has tried 57 suspects, executing 17. A search is on for some 275 additional persons believed to be part of the subversive apparatus supported by Aden. The latter, embarrassed by the continuing trials, retaliated on 30 June by announcing it would conduct its own trials of a Sana-sponsored subversive group.]

Despite the subversion and the trials and contrary to earlier indications that the Yemens would drop even the pretense of working toward unity, committees established by the union agreement are scheduled to resume work on 16 July. Libya, Algeria, and the Arab League are sponsoring the committee meetings and have undoubtedly been prodding both parties to maintain at least a facade of unification efforts. Earlier this week President Qadhafi invited the Yemenis to hold some of the committee sessions in Tripoli. The prospects for real movement toward unity are, nevertheless, nil.

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## URUGUAY: SIGNS OF OPPOSITION

20 [The opposition appears to be recovering from the shock of the sudden closing of Congress and is trying to mount a challenge to President Bordaberry and the military. Bordaberry and the military set out last week to conciliate labor, but quickly gave up in the face of a general strike. They dissolved the largest labor organization and imprisoned some low-level labor leaders. This prodded the leftist Frente Amplio coalition and the Blanco Party into calling for Bordaberry's resignation and for the election of a constituent assembly to write a new constitution.]

has sought to undercut the influence of the labor leaders by granting a 30-percent wage increase, but this is less than half what the workers are demanding.]

31 [Opposition efforts are being hindered by the government's ban on political agitation and by the self-imposed exile of several of the most militant opposition leaders. If, however, the government is unable to make peace with labor soon and if the strike is prolonged, the opposition political forces could find support among the workers and the general public, who face food shortages and a stoppage in essential public services.]

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81 [The Colorado Party, of which Bordaberry is a member, appears to be split on how to react to the closing of Congress. The faction headed by former president Jorge Pacheco seemingly favors working with the military in hopes of gaining seats on the State Council that is to replace Congress. Pacheco hopes to return to the presidency in 1976.]

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 [The other important Colorado faction leans toward joining the Frente Amplio and the Blancos in opposing Bordaberry and the military.]

83 [Top union leaders have been demanding Bordaberry's resignation, too. The government

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 [There appears to be increasing military dissatisfaction with the President's handling of the strike, but as yet the grumbling is diffused and seems to lack the focus essential for ousting the president.]

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## CHILE: A BIZARRE TURN

25X1 (C) The rebellion last Friday by a small army  
 25X1 unit in Santiago has heightened apprehension  
 throughout Chile. [REDACTED]

Initially, Allende emerged from Friday's events in a stronger personal position vis-a-vis his Socialist and Communist colleagues. In past weeks, these parties had been cooperating more closely and taking a harder line against the opposition. This position was confining the President, reducing his ability to negotiate and forcing him into tougher actions than he otherwise would have taken. When the military units in Santiago came to his defense, he was able to claim military support for his government.

There is little evidence that the revolt was provoked by the government, but such a thing does seem possible. If so, the government was probably acting without the acquiescence of the military command in an attempt to flush out plotters. According to information available, the rebellious unit—the Second Armored Battalion—had been visited Friday morning by a government delegation with orders to replace the unit commander. The unit commander arrested the delegation and proceeded with his troops and tanks to the government palace and the Defense Ministry to demand the resignation of the defense minister. Fighting broke out, and within a few hours loyal troops arrived on the scene in parade formation and wearing white brassards, which appear to have been prepared beforehand. The rebels were quickly surrounded, and they then surrendered. No other unit joined the rebels.

Allende immediately called for a nationwide state of siege that would have given him extraordinary powers. The move was rejected by the opposition-controlled congress. In the meantime, the entire cabinet resigned in the expectation that



the new cabinet would have military participation. [REDACTED]

Allende has, however, had to postpone naming his new civilian ministers, indicating that he may be having difficulty finding suitable and willing civilians.

(C) The nationwide state of emergency and the curfew in Santiago, imposed last week, were lifted on Wednesday. This may serve to cool the atmosphere somewhat, but it could open the way for the Popular Unity coalition to mount demonstrations in support of the government. The military, who remain agitated in the wake of Friday's events, are not likely to approve such activity. The 75-day strike by workers at the El Teniente copper complex has ended, and this could mean that labor agitation may be reduced at least for the time being. [REDACTED]

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## ECUADOR: PETROLEUM POLICY

102 [The military government of President Rodriguez is going ahead with plans to raise Ecuador's status as an oil-exporting country and to obtain the maximum benefits from foreign investors.]

99 [The possibility of a scandal surrounding the awarding of a contract to sell the government's royalty crude to a Japanese company last May threatens to bring down the minister of natural resources, Navy Captain Gustavo Jarrin. Ecuador's military leaders canceled the contract last month, citing "imprecision" and "irregularities." The charges may be true. On the other hand, the conditions for submitting new bids have been tightened, and the Ecuadoreans may have used the alleged irregularity as a convenient excuse for obtaining better terms. If Jarrin were removed, his replacement would in all probability be another nationalistic naval officer.]

101 [Ecuador has been accepted as an associate member of the Organization of Petroleum Exporting Countries. Although Rodriguez had hoped to become a full member, he has labeled Ecuador's partial acceptance into the powerful organization a "breakthrough." The government now can turn its full attention to negotiating new contracts with foreign oil companies before the 6 August deadline. Many of the companies now active in Ecuador are expected to postpone signing any contracts.]

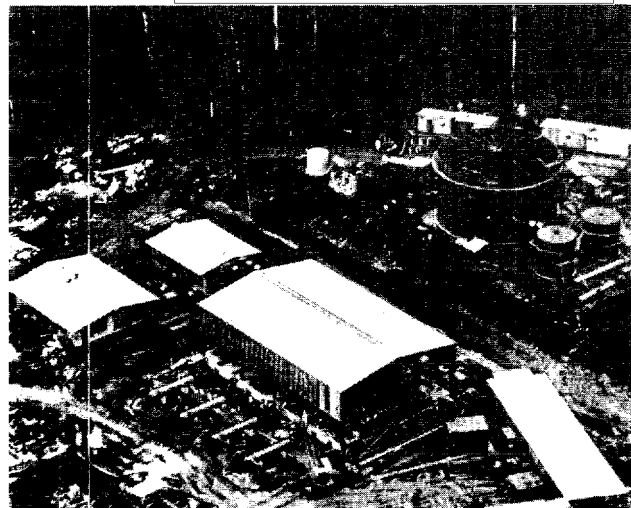
100 [Although the government will press for increased benefits from foreign investors, the military leaders realize that Ecuador has neither the personnel nor the resources to go it alone. Japanese investors have been eager to assist, and Ecuadorean officials will continue to use this as a bargaining tool in negotiations with US companies. The prevailing air of uncertainty has caused many companies to suspend operations. Both sides have a stake in getting things rolling again, but the government believes it is now in the driver's seat.]

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100 [There is evidence that the government will try to drive a hard bargain with the investors, despite the lack of consensus on the matter. The ease with which Ecuador has been able to find buyers for the petroleum it receives from the companies is adding to the government's confidence. Earlier this month, the government decided to raise the tax reference price on crude from \$3.20 per barrel to \$3.60. Although the new figure is higher than Venezuela's price, it is in line with prices set by producing countries in North Africa.]



Texaco-Gulf oil pumping station

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## BRAZIL: INFLATION

1 Inflation—particularly in food prices—is providing and will continue to provide a major challenge to the Medici administration.

2 Recent figures show that the plan to reduce this year's inflation rate to 12 percent (compared with 16 percent in 1972) is in trouble because of the persistent price increases of important food items. In particular, beans, a staple in the Brazilian workingman's diet, have doubled in price since January. Increases in meat and milk prices are another serious problem. Although inflation during the first five months as a whole was somewhat below that of a year ago, price rises in April and May were greater than they were in the same months a year ago.

3 The Medici administration has derived much of its considerable prestige from an ability to solve economic and technical problems. It has recently reaffirmed that inflation control is its highest priority problem. In addition, Delfim Neto, finance minister and architect of the anti-inflation effort, recently emerged victorious over the agriculture minister, who had publicly charged that the fight against inflation was hurting food producers. He lost and resigned.

4 The regime's military backers have been conditioned to expect that the government will deliver on its economic promises. The military took power in 1964 largely to right what it considered a chaotic situation. Indeed, Brazil's international credit rating was at the time at an all-time low, with growth rates to match, and inflation was pushing prices up by some 85 percent a year. To a great extent, the military's justification for remaining in power has been the dramatic reversal of these trends and the ever-improving economic conditions. The last three years have witnessed annual growth in gross national product



Changing price tags

of around 10 percent a year while inflation rates were held to around 18 percent. In the eyes of result-oriented officers, the regime would lose some of its aura of success if it were to fail to keep inflation within the 12-percent limit it set itself.

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## INTERNATIONAL

### Agriculture

(104 - III)  
Not surprisingly, the major importers of US soybeans reacted strongly to the temporary US export embargo. The export allocation system announced this week eased tension somewhat by indicating that some of the soybeans already contracted for would be delivered, but many countries—hoping for more generous treatment—were still dismayed. The soybean measures will probably produce both political difficulties for the US and economic difficulties for some of its major trading partners.

Although the European countries are not as dependent as Japan on US soybeans, the US move could have a serious impact on the livestock industry, particularly in the smaller North European countries, but also in Germany and France. At a minimum, the US move will aggravate an already serious inflation throughout most of Europe.

The European governments have been extremely critical of the US move. The French, in particular, have cited the irony of the export controls being imposed when Washington is pressing for easier access for US farm products to European markets. One high French official pointed out that the controls would strengthen the hand of those who argue that the US is an unreliable supplier and that defensive measures have to be taken. The controls undermine the position of EC members, particularly the British, who would like to see an agricultural policy less

insistent on self-sufficiency and therefore less expensive to the consumer. The controls will probably make it more difficult to resist French pressures.

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### MONEY

112 - III  
The latest revaluation of the German mark has not slowed the depreciation of the dollar, which continues to hit new lows against European currencies. Austria is the only country to have revalued following the German move.

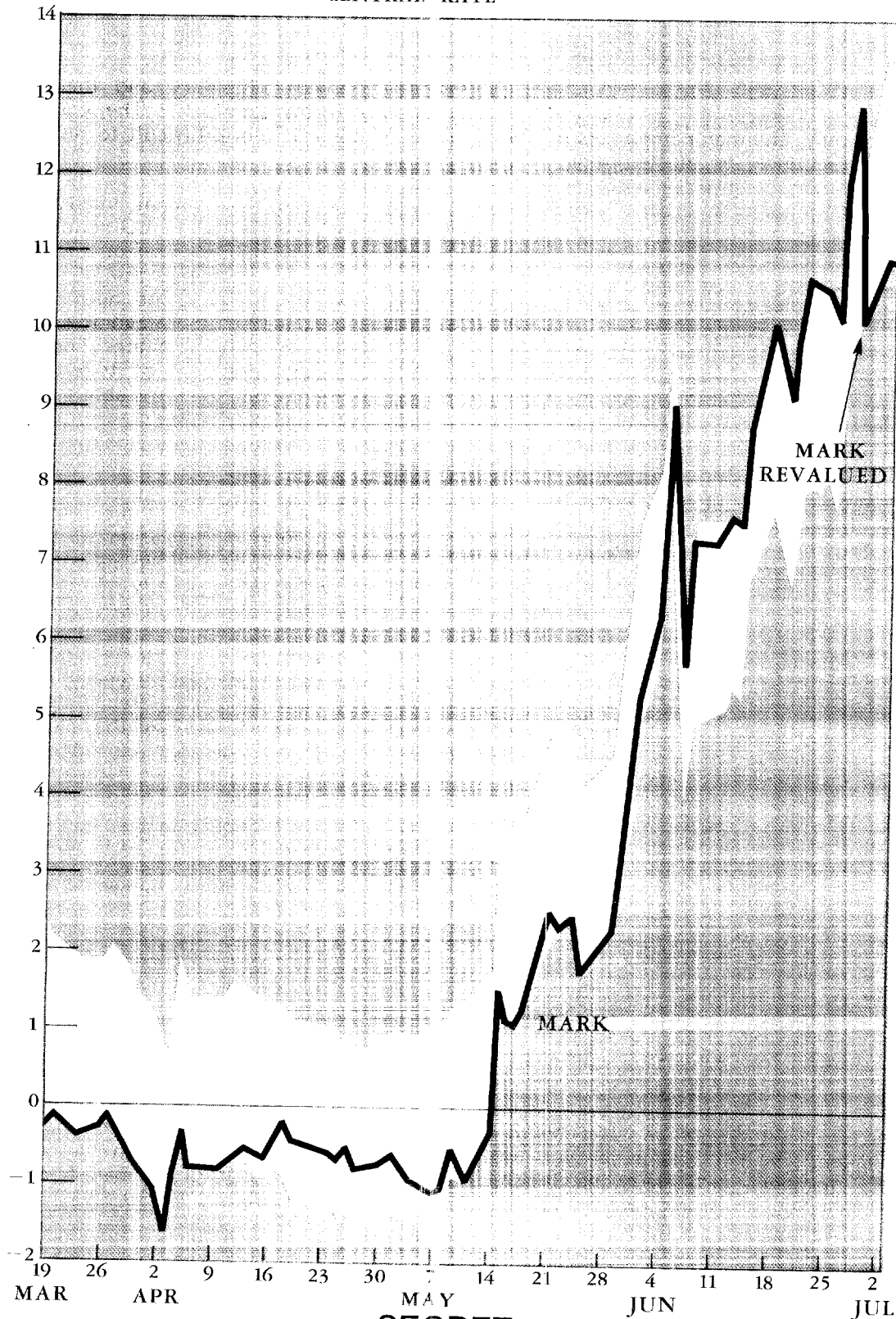
Bonn's decision to revalue was taken in the face of renewed large-scale currency movements. In the past, the inflows consisted predominantly of dollars, but this time, with the mark floating against the dollar, European currencies flooded in. On 28 June, the day before revaluation, the Bundesbank had to buy about \$900 million worth of European currencies, raising its total currency purchases to some \$1.6 billion over a 12-day period. These purchases were threatening Bonn's new anti-inflation program.

Revaluation will increase the price of German goods sold abroad and reduce the price on imported goods. It will lower the trade surplus, but only over the long run. Indeed, Finance Minister Schmidt has cast doubt on prospects for any near-term reduction of the massive and growing trade surplus. May trade results—withheld until after the revaluation announcement for fear of setting off new speculation—support recent estimates that the 1973 German trade surplus might reach an unprecedented \$11 billion. The

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# THE EUROPEAN CURRENCY BAND, 1973

PERCENT CHANGE FROM CENTRAL RATE



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initial perverse effects of the revaluation may send it even higher.

Schmidt has been publicly critical of both US and European economic policies. He said that international monetary stability is not possible without US involvement. He claims that had Germany's partners in the joint float pursued stability as intensively as Bonn, Bonn would not have been forced to revalue.

The revaluation will keep the joint float going for at least a while longer. Revaluation dropped the mark from the top of the European band and relieved some of the pressure on the band. The revaluation, however, represents another windfall for money managers and spec-

ulators who bet on a mark revaluation. It may encourage them to try their hand again, thereby keeping the international currency markets unsettled. The mark may remain the chief target for speculators.

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